



Central Intelligence Agency  
Office of the Deputy Director for Intelligence

17 July 1986

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NOTE FOR: D/SOVA

Doug,

I think Frank's recommendation has  
some merit. If you do as well, why don't  
you initiate some type of recognition.

[Redacted Signature]

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Richard J. Kerr  
Deputy Director for Intelligence

[Redacted Box]

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16 JUL 1986

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MEMORANDUM FOR: Director of Central Intelligence  
VIA: Deputy Director of Central Intelligence  
FROM: Richard J. Kerr  
Deputy Director for Intelligence  
SUBJECT: MEAP Report Dated June 18, 1986

1. Action: This memorandum is for your information only, no action is required.

2. Background: [ ] Chairman of your Military-Economic Advisory Panel summarized the Spring 1986 Panel meeting to you in a letter dated June 18, 1986. You acknowledged his letter in a note to him dated June 30, 1986. This memorandum gives you my thoughts on the Panel's letter.

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3. Review of MEAP Recommendations: I have reviewed the MEAP report of June 18, 1986 and generally concur with its conclusions. I offer the following specific comments.

Strategic Defense Initiative

-- MEAP's point that the Agency is involved in a large number of projects that tend to focus on fairly narrow questions is valid. The load has been especially heavy for OSWR with the SDI effort initially having an almost insatiable thirst for technical information. SOVA has also had to deal with a number of SDI topics, mostly in arms control and in public diplomacy. SOVA has slowly withdrawn from the public diplomacy part of the SDI support effort, largely by turning over some of the activities to ACIS or by having the SDIO and the NSC go to other Intelligence Community members. The Directorate probably should not cut back much more, primarily because our servicing of these requirements has allowed us to maintain contacts that we must have if we are to stay atop of the latest relevant SDI developments.

-- However, I do not think that we should go too far with MEAP's criticism. The current FY 87 DI Research Program has SDI as one

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SUBJECT: MEAP Report Dated June 18, 1986

of its priority research issues and there are many projects that deal directly with the challenges of SDI and several others that touch on peripheral aspects of the SDI's effort. One of our primary efforts, a look at Soviet political influence operations against SDI, has a fairly specific near-term focus. Several others are much broader and future oriented--focusing on the basic issues of 1) the economic implications of possible Soviet responses to SDI including an industrial "indicators" model, 2) prospects for a Soviet SDI-type defense, and 3) Soviet capabilities to suppress an SDI-type defense. These three aspects, and others on the program would, seem to cover a major part of the strategic landscape around the SDI effort. I am in sympathy with MEAP's caution against trying "to guess what the Soviet response will be." However, I see the need to develop fairly concrete descriptions for Soviet options if we are to be able to answer the important resource questions posed by the US program.

- I agree with MEAP's caution against going to a task force. However, I am not convinced that the DI SDI effort cannot be accommodated within the present management structure and that it requires some sort of Czar. Currently OSWR's SDI Steering Group has primary responsibility for coordinating Directorate research efforts.

#### Retrospective of the 1970s

- I agree with the Panel's comments on the need for a retrospective analysis of the factors responsible for the leveling off of Soviet defense spending in the 1970s. Work on a study which covers much of the ground recommended by MEAP is already well advanced, with publication scheduled for first quarter of FY 87. This paper covers more than the 1970s, but has the virtue of discussing events during the 1960s that led up to the major decisions of the later period. Its aim is to illuminate current Soviet policy on the allocation of resources to defense by identifying many of the factors that have shaped this policy--Soviet economic performance, changing military doctrine, the nature and pace of US and NATO military programs, and Soviet leadership changes--and assess their relative influence and likely future impact.

#### The First Gorbachev Five-Year Plan

- The FY 87 DI Research Program contains considerable focus on Gorbachev's modernization program. Unless the modernization

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strategy takes hold the gap between Western and Soviet technology is likely to widen. In the coming year SOVA will devote substantial effort to determining the progress of the modernization campaign and the factors affecting it, the leadership's ability to sustain improved economic performance long enough for the modernization program to take hold, and the resource allocation implications of modernization, particularly its impact on defense.



Richard J. Gerr

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SUBJECT: MEAP Report dated June 18, 1986

SOVA/  (16 July 1986)

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Central Intelligence Agency  
Office of the Deputy Director for Intelligence

1 July 1986

NOTE FOR: D/SOVA  
D/OSWR  
DD/SOVA

SOVA should take the action in drafting a response for the DCI to sign. I am also sending a copy of this to each of you in your capacity as leaders of three of our principal research themes for FY-87.

1 no longer for  
DCI signature, per  
conversation [redacted]

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John L. Helgerson  
Associate Deputy Director  
for Intelligence



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Executive Registry

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June 18, 1986

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The Honorable  
William Casey  
Director  
Central Intelligence Agency  
Washington, D.C. 20505

Dear Bill:

The spring meeting of your Military Economics Advisory Panel, in a change of pace, was devoted to several topics which had not been presented to us previously. The presentations and discussions were rough and exploratory, and probably not worth relaying to you. However they did trigger a response in us, which I would like to call to your attention.

Upon reflection, it is quite clear that the Soviets are faced with a massive military-economic planning problem for the rest of the century, a problem for which neither they nor the U.S. intelligence community is very well prepared. We do not expect the Community to be able to guess now what path the U.S.S.R. will take; however we do wish the Community to be prepared over the next decade to detect and understand Moscow's responses to its fundamental national security dilemmas. These dilemmas arise from the interaction of at least three major factors: (1) the U.S. threat, which is not just SDI but the general modernization effort and the technological challenge these pose; (2) the backwardness of the Soviet economy and in particular its military-technological infrastructure, and (3) the costs of maintaining and extending the Soviet empire.

This observation suggests that the Agency undertake three related but separate efforts, in order to better understand the indicators of Soviet military and economic behavior for the rest of the century, when these become available to us. Let me address the three topics one at a time.

### Strategic Defense Initiative

Clearly the Soviets believe that the U.S. SDI program will have far-reaching consequences for their security programs and their economy. They seem to view SDI as part of a dangerous magnification of the American military technological challenge, rather than a specific strategic defense development to be met by a specific strategic response. We can expect their responses to this challenge to unfold over a long time, and so there is time for the intelligence community to prepare itself to recognize these responses when they are forthcoming.

We noted that the CIA has begun a large number of projects relating to SDI. The great majority appear to be designed to answer narrow technical questions put by DoD, however, rather than in preparation for an estimate of Soviet responses and the implications for Soviet security and

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the Soviet economy.

We think this is unfortunate. We would like to see you set some budget for responses to DoD requests in support of SDIO design and analysis efforts, and then spend a significant discretionary effort preparing to assess the strategic implications to the Soviets of the over-all military challenge represented by SDI. We think it is fruitless at this point to try to guess what the Soviet response will be. However it does make a great deal of sense to look at the relevant industrial technologies and the Soviet industrial scene, with an eye to identifying those technologies that the Soviets are likely to push in order to prepare themselves to respond to this U.S. challenge.

A set of such technological questions should be identified, then various portions of the DI tasked to answer these questions. The plausible choice as designer of the over-all SDI/technological challenge effort is the Director of SOVA. We are not, however, recommending a task force approach. The requirement is to identify what component analyses are needed, to break down the analyses into single-office tasks, and to monitor the work that the offices produce. It is only after the analyses have been performed and intelligence has started to flow that inter-disciplinary task forces need to be considered.

The MEAP, with Steve Meyer in the lead, is prepared to support this effort.

#### Retrospective on the 1970s

Another way of preparing the foundation for understanding future Soviet developments is a particular retrospective analysis. The major object of such a study is to understand the reasons for the slowdown in military spending -- in particular the roles played by the general economic retardation, changes in national security doctrine, elite politics, and appreciations of the foreign policy environment, especially U.S.-Soviet relations. Why did the U.S. rearmament, starting with Carter, and the generally more militant Reagan policy not trigger an acceleration of the Soviet military effort? One component may be the Soviets' fear of exacerbating their economic retardation, but to be confident about our answers we need a much better understanding of how it all began, in the early and mid-1970s.

The MEAP, under the lead of Ed Hewett, is prepared to support such an effort.

#### The First Gorbachev Five Year Plan

The Twelfth five-year plan has been analyzed extensively by CIA analysts, who have demonstrated many of the inconsistencies and obstacles to success which it contains. Nevertheless the Soviets have adopted the plan, and the U.S. intelligence community will have to try to monitor Soviet progress and problems in trying to implement it. Because the plan emphasizes many areas of qualitative improvement, it is likely that our traditional measures for quantifying inputs and outputs will provide misleading indications. We know that anecdotes of successes and failures

in modernization will emerge; without a better understanding of what to expect, we will not know if these incidents are significant or random ups and downs.

Monitoring the progress of the plan will be even more important than it has been in the past. The modernization program represents the Soviet leadership's great gamble to prepare itself for the U.S. military's technological challenge.

SOVA will have to monitor closely developments in resource allocation, economic organization and economic thought to keep on top of the Soviet modernization effort. On the whole, this does not represent a new task; the pace of events and the vigor of the new leadership merely increases the scale of the task. However, it is increasingly important to follow closely the interrelations between civil and military industry, particularly in machine building. And in view of the tautness of the Gorbachev economic program and its extraordinary restructuring of investment, the tripartite relation between machinery output, the equipment component of investment, and investment in machine building will be particularly important. It is also likely that for some of these same reasons, quality and cost may be sacrificed to quantity, which will aggravate our standard problem of measuring Soviet output changes.

The MEAP, with Bob Campbell in the lead, is prepared to support this effort.

### Summary

Each of these areas is the province of the DDI, and each could go forward without notice or approval at your level. Yet together they constitute something more than three independent studies. Together they represent a realization that Soviet economic intelligence needs a certain long term investment if it is to be productive for the next decade, and consequently that some fundamental projects need to be started now, if tools are to be available when needed next year or the year after.

This observation is not a criticism of the foresight of the community's managers; on the contrary, they have done quite a good job until now. However the game is changing, with a new generation in charge in the U.S.S.R., with very new (and expensive) military technology available at all levels of conflict, and with the difficult Soviet economic prospects. We therefore believe it appropriate that you be involved and, hopefully, support this partial shifting of emphasis in the work of the DI, and in particular of SOVA.

### Epilogue

At our meeting we also followed a number of the more technical or detailed topics which have occupied us for several years. We will report on these directly to the offices involved.

Sincerely,



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